

KYODO PRINTING CO., LTD.
and Consolidated Subsidiaries

Interim Consolidated Financial Statements (Unaudited)
for the Three-Month Period Ended June 30, 2017

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets June 30, 2017 as compared with March 31, 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	June 30, 2017	March 31, 2017	June 30, 2017
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 3)	¥ 16,665	¥ 17,414	\$ 148,794
Receivables:			
Trade notes	2,698	5,839	24,089
Trade accounts	20,631	19,305	184,205
Allowance for doubtful accounts	(56)	(60)	(500)
Short-term investments (Note 3)	332	330	2,964
Inventories	6,688	6,157	59,714
Deferred tax assets	624	620	5,571
Prepaid expenses and other current assets	807	507	7,205
	<u>48,391</u>	<u>50,114</u>	<u>432,062</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	15,663	15,477	139,848
Buildings and structures	44,582	44,953	398,053
Machinery and vehicles	50,101	49,047	447,330
Furniture and fixtures	6,354	6,217	56,732
Lease assets	2,282	2,238	20,375
Construction in progress	1,891	879	16,883
Total	<u>120,876</u>	<u>118,814</u>	<u>1,079,250</u>
Accumulated depreciation	<u>(77,737)</u>	<u>(77,593)</u>	<u>(694,080)</u>
	<u>43,139</u>	<u>41,220</u>	<u>385,169</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities	21,258	20,212	189,803
Investments in associated companies	292	436	2,607
Goodwill	1,017	251	9,080
Intangible assets	1,173	1,214	10,473
Deferred tax assets	160	169	1,428
Other long-term assets	1,006	1,010	8,982
Allowance for doubtful accounts	<u>(46)</u>	<u>(47)</u>	<u>(410)</u>
	<u>24,862</u>	<u>23,246</u>	<u>221,982</u>
TOTAL	<u>¥ 116,393</u>	<u>¥ 114,581</u>	<u>\$ 1,039,223</u>

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Balance Sheets June 30, 2017 as compared with March 31, 2017 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	June 30, 2017	March 31, 2017	June 30, 2017
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term loans payable	¥ 21	¥ 10	\$ 187
Current portion of long-term debt	1,001	1,058	8,937
Payables:			
Trade notes	2,137	8,076	19,080
Trade accounts	15,432	9,680	137,785
Income taxes payable	174	473	1,553
Accrued bonuses	402	1,225	3,589
Other current liabilities	9,357	7,721	83,544
Total current liabilities	28,526	28,245	254,696
LONG-TERM LIABILITIES:			
Long-term debt	14,820	14,110	132,321
Liability for retirement benefits	5,558	5,564	49,625
Deferred tax liabilities	3,504	3,180	31,285
Other long-term liabilities	320	299	2,857
Total long-term liabilities	24,204	23,155	216,107
EQUITY:			
Common stock—authorized, 360,800,000 shares; issued, 90,200,000 shares as of June 30, 2017 and March 31, 2017	4,510	4,510	40,267
Capital surplus	1,742	1,742	15,553
Retained earnings	47,151	47,360	420,991
Treasury stock—at cost, 2,417,614 shares as of June 30, 2017 and March 31, 2017	(548)	(548)	(4,892)
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities	10,748	9,991	95,964
Foreign currency translation adjustments	14	85	125
Remeasurement of defined benefit plans	(14)	(17)	(125)
Total	63,603	63,124	567,883
Non-controlling interests	57	55	508
Total equity	63,661	63,180	568,401
TOTAL	¥ 116,393	¥ 114,581	\$ 1,039,223

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income Three-Month Periods Ended June 30, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2017	2016	2017
NET SALES (Note 4)	¥ 21,714	¥ 22,722	\$ 193,875
COST OF SALES	18,017	18,559	160,866
Gross profit	3,696	4,162	33,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 4):			
Delivery expenses	1,033	1,058	9,223
Provision of allowance for doubtful accounts	(4)	(15)	(35)
Salaries and allowances	1,035	1,303	9,241
Provision for employees' bonuses	129	120	1,151
Provision for directors' bonuses	15	15	133
Retirement benefit expenses	59	83	526
Other	1,320	1,013	11,785
Total selling, general and administrative expenses	3,589	3,578	32,044
Operating income (Note 4)	107	583	955
OTHER INCOME (EXPENSES):			
Interest and dividend income	176	145	1,571
Interest expenses	(18)	(26)	(160)
Gain on sales of goods	60	69	535
Rent income (expenses) on facilities	31	31	276
Dividend income of insurance	163	184	1,455
Gain (loss) on sales and retirement of non-current assets	(260)	(37)	(2,321)
Gain on step acquisition	43	-	383
Other—net	2	11	17
Other income—net	198	378	1,767
INCOME BEFORE INCOME TAXES	306	962	2,732
INCOME TAXES	162	311	1,446
NET INCOME	144	651	1,285
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	1	2	8
NET INCOME ATTRIBUTABLE TO OWNERS OF PARENT	¥ 142	¥ 649	\$ 1,267

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Income

Three-Month Periods Ended June 30, 2017 and 2016 (Unaudited)

	Yen		U.S. Dollars	
	Three-Month Period Ended June 30		Three-Month Period Ended June 30	
	2017	2016	2017	
PER SHARE OF COMMON STOCK:				
Basic net income	¥ 1.63	¥ 7.40	\$ 0.01	
Diluted net income	1.44	6.54	0.01	

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Comprehensive Income Three-Month Periods Ended June 30, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	Three-Month Period Ended June 30		Three-Month Period Ended June 30	
	2017	2016	2017	
NET INCOME	¥ 144	¥ 651	\$	1,285
OTHER COMPREHENSIVE INCOME:				
Unrealized gain (loss) on available-for-sale securities	756	(30)		6,750
Foreign currency translation adjustments	(65)	(55)		(580)
Remeasurement of defined benefit plans	3	33		26
Share of other comprehensive income in associated companies accounted for using the equity method	(5)	(0)		(44)
Total other comprehensive income	688	(53)		6,142
COMPREHENSIVE INCOME	¥ 832	¥ 597	\$	7,428
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of parent	¥ 830	¥ 595	\$	7,410
Non-controlling interests	1	2		8

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows Three-Month Periods Ended June 30, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 306	¥ 962	\$ 2,732
Adjustments for:			
Income taxes—paid	(368)	(967)	(3,285)
Depreciation and amortization	1,007	874	8,991
(Gain) Loss on sales and retirement of property, plant and equipment	260	37	2,321
(Gain) Loss on step acquisition	(43)	-	(383)
Changes in assets and liabilities:			
(Increase) Decrease in trade receivables	1,976	1,955	17,642
(Increase) Decrease in inventories	(452)	(255)	(4,035)
Increase (Decrease) in trade payables	(428)	(526)	(3,821)
Increase (Decrease) in liability for retirement benefits	(32)	65	(285)
Increase (Decrease) in accrued consumption tax	57	181	508
Increase (Decrease) in accrued expense	1,624	1,617	14,500
Increase (Decrease) in accrued bonuses	(822)	(836)	(7,339)
Other—net	(246)	(182)	(2,196)
Total adjustments	2,532	1,961	22,607
Net cash provided by operating activities	2,838	2,924	25,339
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2,046)	(962)	(18,267)
Purchases of intangible assets	(54)	(65)	(482)
Proceeds from sales of property, plant and equipment	0	11	0
Purchases of investment securities	(3)	(460)	(26)
Purchases of shares of subsidiaries resulting in change in scope of consolidation	(594)	-	(5,303)
Other—net	(206)	88	(1,839)
Net cash used in investing activities	(2,904)	(1,388)	(25,928)
FORWARD	¥ (66)	¥ 1,535	\$ (589)

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Interim Consolidated Statements of Cash Flows Three-Month Periods Ended June 30, 2017 and 2016 (Unaudited)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three-Month Period Ended June 30		Three-Month Period Ended June 30
	2017	2016	2017
FORWARD	¥ (66)	¥ 1,535	\$ (589)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term loans payable	(10)	-	(89)
Repayments of long-term debt	(242)	(263)	(2,160)
Dividends paid	(351)	(351)	(3,133)
Other—net	(72)	(0)	(642)
Net cash used in financing activities	(676)	(615)	(6,035)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(5)	1	(44)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(748)	921	(6,678)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17,414	14,234	155,482
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 3)	¥ 16,665	¥ 15,156	\$ 148,794

See notes to interim consolidated financial statements.

KYODO PRINTING CO., LTD. and Consolidated Subsidiaries

Notes to Interim Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTING INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying interim consolidated financial statements of KYODO PRINTING CO., LTD. (the “Company”) and its consolidated subsidiaries (together, the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accounting standard for quarterly financial statements requires companies to prepare a set of interim consolidated financial statements for each quarter comprised of the consolidated balance sheet as of the current quarter-end and the consolidated statements of income, and comprehensive income, and cash flows for the year-to-date period. A statement of changes in equity is not required.

The interim consolidated statements of changes in equity are not presented herein.

In preparing these interim consolidated financial statements, certain reclassifications and rearrangements have been made to the interim consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The interim consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.00 to \$1, the approximate rate of exchange as of June 30, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen figures less than a million yen are rounded down to the nearest million yen except for per share data. U.S. dollar figures are translated from millions of yen and rounded down to the nearest thousand dollars except for per share data.

2. SIGNIFICANT ACCOUNTING POLICIES

Substantially the same accounting policies have been followed in these interim consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended March 31, 2017, with certain simplified methods, except for the policy specifically allowed and adopted for interim accounting periods described below.

- a. Consolidation*—Koishikawa Process Co., Ltd. has been excluded from the scope of consolidation as it was merged into Cosmo Graphic Co., Ltd., a consolidated subsidiary, in the three-month period ended June 30, 2017. PT Arisu Graphic Prima became a consolidated subsidiary from an associated company accounted for by the equity method as more of its shares were acquired by the Company. The reportable segment of PT Arisu Graphic Prima’s operations is the Living and Industrial Materials segment.
- b. Tax Expense*—Tax expense for interim period is measured by applying a reasonably estimated effective tax rate for this fiscal year as adjusted after tax effect accounting to income before income taxes for the interim period.

3. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents as of June 30, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of
	June 30, 2017	June 30, 2016	U.S. Dollars June 30, 2017
Cash and time deposits	¥ 15,998	¥ 15,482	\$ 142,839
Time deposits exceeding three months to maturity	(332)	(325)	(2,964)
Short-term investments with a maturity date within three months from the date of acquisition	1,000	-	8,928
Cash and cash equivalents	<u>¥ 16,665</u>	<u>¥ 15,156</u>	<u>\$ 148,794</u>

4. SEGMENT INFORMATION

Information about Sales and Profit (Loss)

June 30, 2017	Millions of Yen			Total
	Reportable Segment			
	Information Communication	Information Security	Living and Industrial Materials	
Sales:				
Sales to external customers	¥ 8,459	¥ 7,231	¥ 5,566	¥ 21,257
Intersegment sales or transfers	353	255	101	710
Total	<u>¥ 8,813</u>	<u>¥ 7,486</u>	<u>¥ 5,668</u>	<u>¥ 21,968</u>
Segment profit (loss)	¥ (503)	¥ 269	¥ 262	¥ 29

June 30, 2017	Millions of Yen			Interim Consolidated Statements of Income (*3)
	Other (*1)	Total	Reconciliations (*2)	
Sales:				
Sales to external customers	¥ 456	¥ 21,714	¥ -	¥ 21,714
Intersegment sales or transfers	1,946	2,656	(2,656)	-
Total	<u>¥ 2,402</u>	<u>¥ 24,371</u>	<u>¥ (2,656)</u>	<u>¥ 21,714</u>
Segment profit (loss)	¥ 57	¥ 87	¥ 20	¥ 107

	Millions of Yen			
	Reportable Segment			
June 30, 2016	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	¥ 9,010	¥ 7,952	¥ 5,332	¥ 22,295
Intersegment sales or transfers	387	294	102	784
Total	<u>¥ 9,398</u>	<u>¥ 8,247</u>	<u>¥ 5,434</u>	<u>¥ 23,079</u>
Segment profit (loss)	¥ (377)	¥ 718	¥ 195	¥ 535

	Millions of Yen			
	Other (*1)	Total	Reconciliations (*2)	Interim Consolidated Statements of Income (*3)
Sales:				
Sales to external customers	¥ 426	¥ 22,722	¥ -	¥ 22,722
Intersegment sales or transfers	1,978	2,762	(2,762)	-
Total	<u>¥ 2,404</u>	<u>¥ 25,484</u>	<u>¥ (2,762)</u>	<u>¥ 22,722</u>
Segment profit (loss)	¥ 69	¥ 605	¥ (21)	¥ 583

June 30, 2017	Thousands of U.S. Dollars (Note 1)			
	Reportable Segment			
	Information Communication	Information Security	Living and Industrial Materials	Total
Sales:				
Sales to external customers	\$ 75,526	\$ 64,562	\$ 49,696	\$ 189,794
Intersegment sales or transfers	3,151	2,276	901	6,339
Total	<u>\$ 78,687</u>	<u>\$ 66,839</u>	<u>\$ 50,607</u>	<u>\$ 196,142</u>
Segment profit (loss)	\$ (4,491)	\$ 2,401	\$ 2,339	\$ 258

June 30, 2017	Thousands of U.S. Dollars (Note 1)			
	Other (*1)	Total	Reconciliations (*2)	Interim Consolidated Statements of Income (*3)
	Sales:			
Sales to external customers	\$ 4,071	\$ 193,875	\$ -	\$ 193,875
Intersegment sales or transfers	17,375	23,714	(23,714)	-
Total	<u>\$ 21,446</u>	<u>\$ 217,598</u>	<u>\$ (23,714)</u>	<u>\$ 193,875</u>
Segment profit (loss)	\$ 508	\$ 776	\$ 178	\$ 955

Notes: (*1) "Other" refers to business segments not included in the reportable segment, which mainly includes logistics business, insurance business and real estate management business.

(*2) Reconciliations for segment profit (loss) refer to corporate expenses and primarily consist of general and administrative expenses and research and development costs that are not attributable to any reportable segments.

(*3) Segment profit (loss) is adjusted to the operating income (loss) stated in the interim consolidated statements of income.

Information About Impairment Loss on Non-current Assets or Goodwill for Each Reportable Segment

Significant changes in the amount of goodwill

Goodwill was recognized in the "Living and Industrial Materials" segment because the Company acquired shares of PT Arisu Graphic Prima and made it into a subsidiary. The increased amount of goodwill associated with the above event was ¥779 million (\$6,955 thousand) in the three-month period ended June 30, 2017.

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